Abstract

Objectives: This research is conducted to acknowledge and evaluate whether corporate governance is correlated with company’s relative efficiency, specifically for public companies listed in Indonesia Stock Exchange during year 2008.

Methods: The object of this research, after taking into account the availability of data of the 2008 published annual financial reports, is the 34 public companies listed in Indonesian Stock Exchange. The hypothesis tested is using Spearman’s Correlation. A modified Jones (1991) model exhibits the most powerful model for detecting earnings management and hence, captures corporate governance. The previous study of Klein (2002) posits corporate governance is related to earnings management. In regard with the efficiency score, this research employs Data Envelopment Analysis (DEA).

Result and Conclusion: This research found that the correlation coefficient between discretionary portion of total accruals (as proxy of earnings management) and company’s relative efficiency is not significant at 0.05 levels. Therefore, the discretionary portion of total accruals might fail to capture corporate governance characteristics, thereby relative efficiency, in Indonesia.

Key words: Corporate Governance, Data Envelopment Analysis, Earnings Management, Indonesian Stock Exchange.